



## H.R. 7175 – Small Business Lending Improvements Act

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### FLOOR SITUATION

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H.R. 7175 is being considered on the floor under suspension of the rules and will require a two-thirds majority vote for passage. This legislation was introduced by Representative Nydia Velazquez (D-NY) on September 27, 2008. The bill was referred to the Committee on Small Business, but was never considered.

H.R. 7175 is expected to be considered on the floor of the House on September 27, 2008.

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### SUMMARY

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Small Business Administration Loan Programs: The bill permits the pooling of 7(a) program loans based on a weighted average interest, to improve the efficiency of the secondary market for small commercial loans. The provision also simplifies the standard for determining small business loan eligibility to encourage more lender participation in the program.

Certified Development Companies: H.R. 7175 specifies criteria which a development company must meet in order to participate in SBA's lending program. A Certified Development Company (CDC) must have fewer than 500 employees and serve its local community by creating and preserving jobs and attracting private community investment.

H.R. 7175 permits CDCs to foreclose and liquidate defaulted loans or to contract with a third-party to do so.

Small Business Investment Company Program: The bill simplifies the SBIC leverage cap rules to a single formula, regardless of the amount of private capital that the SBIC, up to a maximum leverage cap of \$150 million.

*Note: Leverage caps for SBIC companies currently depend on the company's amount of private capital.*

Other Provisions: This legislation allows the ownership interest of two or more owners to be combined to determine whether the small business is at least 51 percent owned by minorities, women, or veterans, for the purpose of qualifying for assistance as a public policy goal.

H.R. 7175 enables borrowers to provide more than the required minimum amount of equity to reduce the amount of a first mortgage loan.

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### BACKGROUND

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This legislation is similar to H.R. 1332 which passed the House by a vote of 380-45 on April 25, 2007. That bill was never considered by the Senate.

In 1952, President Dwight Eisenhower sought the creation of a small business agency to replace the Reconstruction Finance Corporation that was created in the 1930s to deal with the effects of the Great Depression. Congress created the Small Business Administration (SBA) by passing the Small Business Act on July 30, 1953. The SBA's mission is to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns."

The SBA's primary loan program is the 7(a) loan program. This program provides loan guarantees for borrowers who may have trouble procuring a loan. These loans may be used for business acquisition, expansion, construction, recapitalization, refinance, business buyout, start-ups, working capital, and machinery and equipment purchase. 7(a) loans may be borrowed up to \$2 million.



The guaranty which SBA provides for 7(a) loans is only available to the lender. It guarantees the lender that if the borrower does not repay their debt and a payment default occurs, the Government will reimburse the lender for its loss, up to the percentage of SBA's guaranty. However, the borrower remains obligated for the full amount due.

The 504 loan program is a long-term lending tool for the development of a community's economy. These loans are designed for the purchase of long term assets such as owner-user commercial real estate or heavy machinery and equipment.

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#### COST

The Congressional Budget Office (CBO) has not produced a cost estimate for H.R. 7175 as of September 27, 2008.

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#### STAFF CONTACT

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